FINANCIAL STATEMENTS
of the Thrift Savings Fund — 2001 and 2000

ARTHUR ANDERSEN

Report of independent public accountants

To the Executive Director of the
Federal Retirement Thrift Investment Board:

We have audited the accompanying statements of net assets available for plan benefits of the Thrift Savings Fund as of December 31, 2001 and 2000, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Federal Retirement Thrift Investment Board. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Thrift Savings Fund as of December 31, 2001 and 2000, and the changes in its net assets available for plan benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, Virginia
March 13, 2002

THRIFT SAVINGS FUND

Statements of Net Assets Available for Plan Benefits as of December 31,

(Dollars in Thousands)

Assets	**2001**	2000
Investments, at market value:		
U.S. Government Securities Investment Fund	**$38,660,018**	$32,524,571
Barclays U.S. Debt Index Fund	**8,217,134**	4,337,578
Barclays Equity Index Fund	**47,918,227**	56,575,577
Barclays Extended Market Index Fund	**872,347**	–
Barclays EAFE Index Fund	**300,530**	–
Total investments	**95,968,256**	93,437,726
Receivables:		
Participants' contributions	**280,526**	241,325
Employer's contributions	**125,107**	114,805
Participant loans	**3,971,824**	3,510,898
Due for securities sold	**225,886**	357,542
Securities lending income and rebates	**265**	–
Accrued interest	–	10,025
Total receivables	**4,603,608**	4,234,595
Fixed assets:		
Furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization of $5,210 in 2001 and $4,384 in 2000	**524**	1,350
Data processing software, net of accumulated amortization of $7,020 in 2001 and $6,060 in 2000	**8,384**	48,997
Total fixed assets	**8,908**	50,347
Other assets:	**4,662**	4,498
Total assets	**100,585,434**	97,727,166
Liabilities		
Accounts payable	**26,170**	34,599
Accrued payroll and benefits	**1,064**	913
Deferred rent and lease credits	**305**	607
Total liabilities	**27,539**	36,119
Funds restricted for the purchase of fiduciary insurance	**(5,095)**	(5,007)
Net assets available for plan benefits	**$100,552,800**	$97,686,040

THRIFT SAVINGS FUND

Statements of Changes in Net Assets Available for Plan Benefits for the Years Ended December 31,

(Dollars in Thousands)

Additions to net assets	**2001**	2000
Investment income (loss):		
U.S. Government Securities Investment Fund interest income	**$1,893,325**	$1,956,277
Net realized gain (loss) from sale of Barclays funds	**632,907**	413,071
Net unrealized appreciation (depreciation) in market value of Barclays funds:		
Barclays U.S. Debt Index Fund	**458,423**	404,505
Barclays Equity Index Fund	**(7,484,427)**	(5,932,799)
Barclays Extended Market Index Fund	**(8,269)**	–
Barclays EAFE Index Fund	**(22,599)**	–
Securities lending income and rebates	**1,651**	–
Less investment expenses	**(3,903)**	(4,842)
Net investment income (loss)	**(4,532,892)**	(3,163,788)
Contributions:		
Participants'	**6,834,002**	6,178,422
Employer's	**3,170,714**	2,939,570
Total contributions	**10,004,716**	9,117,992
Interest income on participant loans	**219,193**	195,655
Total additions	**5,691,017**	6,149,859
Deductions from net assets		
Benefits paid to participants	**2,593,819**	2,931,764
Administrative expenses	**105,666**	62,419
Participant loans declared taxable distributions	**124,684**	118,464
Total deductions	**2,824,169**	3,112,647
Net increases (decreases)	**2,866,848**	3,037,212
Funds restricted for the purchase of fiduciary insurance	**(88)**	(127)
	2,866,760	3,037,085
Net assets available for plan benefits		
Beginning of period	**97,686,040**	94,648,955
End of period	**$100,552,800**	$97,686,040

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
as of December 31, 2001

(1) PLAN DESCRIPTION

The following description is provided for general information purposes. Participants should refer to the *Summary of the Thrift Savings Plan for Federal Employees* and applicable legislation for more complete information.

The Thrift Savings Plan (the Plan) is a retirement savings and investment plan for Federal employees. It was authorized by the United States Congress in the Federal Employees' Retirement System Act of 1986 (FERSA). The Plan provides Federal employees with a savings and tax benefit similar to what many private corporations offer their employees. The Plan was primarily designed to allow employees who are participants of the Federal Employees' Retirement System (FERS) to supplement the FERS Basic Annuity benefit.

The Plan is administered by an independent Government agency, the Federal Retirement Thrift Investment Board (the Board), which is charged with operating the Plan prudently and solely in the interest of the participants and their beneficiaries. Assets of the Plan are maintained in the Thrift Savings Fund (the Fund).

Federal employees who are participants of FERS, the Civil Service Retirement System (CSRS), or equivalent retirement plans, as provided by statute, are eligible to join the Plan immediately upon being hired. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 2001, there were approximately 2.6 million participants in the Plan, with approximately 1.9 million contributing their own money.

The Plan is a defined contribution plan and, as such, specifies how much an employee may contribute and how much the employing agency must contribute to each FERS employee's account. FERS employees may contribute up to 11 percent of their basic pay each pay period, on a tax-deferred basis, and receive agency matching contributions on the first 5 percent, according to a formula prescribed by FERSA (5 U.S.C. § 8432(c)). CSRS employees may contribute up to 6 percent of their basic pay each pay period, on a tax-deferred basis, but the Government does not match any of this amount. For FERS employees, their employing agencies also contribute an agency automatic contribution equal to 1 percent of each employee's basic pay each pay period, as defined in FERSA (5 U.S.C. § 8401(4)). In accordance with the Internal Revenue Code, no participant could contribute more than $10,500 in 2001. This limit will increase to $11,000 in 2002.

Pursuant to FERSA (5 U.S.C. § 8438), Plan participants are offered five investment funds: the Government Securities Investment Fund (G Fund), the Fixed Income Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Investment Fund (S Fund), and the International Stock Index Investment Fund (I Fund). Participants may allocate any portion of their contributions among the five investment funds. Also, participants may reallocate their entire account balance among the five investment funds through the interfund transfer process. Participants can make an interfund transfer in any month without an annual limit.

Plan participants are immediately vested in all of their own contributions and attributable earnings. Participants are also immediately vested in any agency matching contributions made to their accounts and attributable earnings. In order to be vested in the agency automatic (1%) contributions, a FERS employee must have either 2 or 3 years of service as described in section 8432(g) of FERSA. FERS employees who are not vested and who separate from the Federal Government forfeit all agency automatic contributions and attributable earnings. Forfeited funds, comprising primarily monies forfeited pursuant to 8432(g), totaled $11,151,000 in 2001 and $15,930,000 in 2000, are used by the Fund to pay accrued administrative expenses. If the forfeited funds are not sufficient to meet all administrative expenses, earnings on investments are then expended.

Participants may apply for loans from their accounts. There are two types of TSP loans: general purpose and residential. General purpose loans can be obtained for any purpose, with a repayment period from 1 to 4 years. Residential loans can be obtained for the purpose of purchasing a primary residence, with a repayment period from 1 to 15 years. Participants may borrow only their own contributions and attributable earnings. The minimum loan amount is $1,000. The interest rate for loans is the G Fund rate at the time the loan application is received by the Board's record keeper. The rate is fixed at this level for the life of each loan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting. The activity of the Fund is accounted for using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

B. Investments. As of, and during the period ended, December 31, 2001, investments of each investment fund were in the following:

The G Fund was invested in short-term nonmarketable U.S. Treasury securities specially issued to the Fund. All investments in the G Fund earned interest at a rate that is equal, by law, to the average of market rates of return on outstanding U.S. Treasury marketable securities with 4 or more years to maturity.

Before May 2001, **the F Fund** was invested primarily in the Barclays U.S. Debt Index Master Fund. Commencing in May 2001, the F Fund began investing in the Barclays U.S. Debt Index Fund by purchasing shares of the Barclays U.S. Debt Index Fund "E," which in turn holds shares of the Barclays U.S. Debt Index Master Fund, plus a liquidity reserve that is invested in short-term Treasury securities. The switch to the "E" Fund was made to accommodate daily investments (or redemptions) of F Fund assets, which began in May 2001. (Previously, the Plan only invested in (or redeemed from) the Master Fund twice per month.) Both the U.S. Debt Index Fund "E" and the Master Fund are passively managed commingled funds that track the Lehman Brothers U.S. Aggregate Bond Index.

As of December 31, 2001, the Barclays U.S. Debt Index Master Fund contained approximately 37 percent mortgage-backed securities, 25 percent investment-grade corporate securities (U.S. and non-U.S.), 22 percent U.S. Treasury securities, 12 percent Federal agency securities, and 4 percent foreign government securities (dollar-denominated securities traded in the U.S. that are issued by foreign or international entities (sovereigns, multilateral lending institutions, foreign agencies and foreign local governments)). The mortgage-backed sector contains securities guaranteed by the Government National Mortgage Association, Fannie Mae, and the Federal Home Loan Mortgage Corporation, as well as commercial mortgaged-backed securities. As of December 31, 2001, the Barclays U.S. Debt Index Master Fund held 2,988 securities totaling $16.4 billion, with an average maturity of 8.1 years. The U.S. Debt Index Fund "E" held shares of the Master Fund totaling $8.6 billion, and the F Fund holdings constituted $8.2 billion of the December 31, 2001, value of the "E" Fund.

Before May 2001, **the C Fund** was invested primarily in the Barclays Equity Index Master Fund. Commencing in May 2001, the C Fund began investing in the Barclays Equity Index Fund by purchasing shares of the Barclays Equity Index Fund "E," which in turn holds shares of the Barclays Equity Index Master Fund, plus a liquidity reserve that is invested in futures contracts. The switch to the "E" Fund was made to accommodate daily investments (or redemptions) of C Fund assets, which began in May 2001. (Previously, the Plan only invested in (or redeemed from) the Master Fund four times per month.) Both the Equity Index Fund "E" and the Master Fund are passively managed commingled funds that track the S&P 500 index. The Equity Index Master Fund holds equity securities of all the companies represented in the S&P 500 index in virtually the same weights as they are represented in the S&P 500 index. As of December 31, 2001, the Barclays Equity Index Master Fund held $126.7 billion of securities. The Barclays Equity Index Fund "E" held shares of the Master Fund totaling $50.9 billion, and the C Fund holdings constituted $47.9 billion of the December 31, 2001, value of the "E" Fund.

The S Fund was first made available to Plan participants on May 1, 2001. The S Fund invests in the Barclays Extended Market Index Fund by purchasing shares of the Barclays Extended Market Index Fund "E," which in turn holds shares of the Barclays Extended Market Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Barclays Extended Market Index Fund "E" and the Master Fund are passively managed commingled funds that track the Wilshire 4500 index by holding the securities with larger capitalizations in virtually the same weights as they are represented in the index, and by holding a representative sample of the securities with smaller capitalizations. The Board invests in (or redeems from) the Barclays Extended Market Index Fund "E" on a daily basis. As of December 31, 2001, the Barclays Extended Market Index Master Fund held $10.9 billion of securities. The Barclays Extended Market Index Fund "E" held shares of the Master Fund totaling $2.0 billion, and the S Fund holdings constituted $0.9 billion of the December 31, 2001, value of the "E" Fund.

The I Fund was first made available to Plan participants on May 1, 2001. The I Fund invests in the Barclays EAFE (Europe, Australasia, Far East) Index Fund by purchasing shares of the Barclays EAFE Index Fund "E," which in turn holds shares of the Barclays EAFE Index Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Barclays EAFE Index Fund "E" and the Master Fund are passively managed commingled funds that track the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Free Index. The Barclays EAFE Index Master Fund holds equity securities of all the companies represented in the EAFE Free index in virtually the same weights as they are represented in the index. The Board invests in (or redeems from) the Barclays EAFE Index Fund "E" on a daily basis. As of December 31, 2001, the Barclays EAFE Index Master Fund held $9.6 billion of securities. The Barclays EAFE Index Fund "E" held shares of the Master Fund totaling $447.7 million, and the I Fund holdings constituted $300.5 million of the December 31, 2001, value of the "E" Fund.

The F Fund, C Fund, S Fund, and I Fund included temporary investments in the same securities held by the G Fund and certain other short-term securities pending purchase of shares in their respective index funds and to cover liquidity needs, such as loans and withdrawals from the Plan.

All investments are stated at market value.

C. Fixed Assets. All fixed assets were recorded at historical cost. Assets with a useful life in excess of 1 year and a cost greater than $25,000 were capitalized and expensed over their useful life using the straight line method. The estimated useful lives are as follows:

Furniture and Equipment	3 to 10 years
Leasehold Improvements	10 years
Data Processing Software	3 years

D. Earnings Allocation. Net earnings were allocated to the participants' accounts monthly. The allocation process used was that described in regulations issued by the Executive Director on November 20, 1996.

E. Contributions Receivable. Contributions receivable were estimated as the amount of contributions recorded through the first 2 weeks of the month following the date of the financial statements.

F. Loans Payable. Loans payable are a component of net assets available for plan benefits. In January 2002, approximately $137,486,000 will be disbursed from accounts of those who were participants of the Plan as of December 31, 2001.

G. Withdrawals Payable. Withdrawals payable are a component of net assets available for plan benefits. In January 2002, approximately $162,237,000 will be disbursed from accounts of those who were participants of the Plan as of December 31, 2001.

H. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of net assets available for plan benefits and additions to and deductions therefrom, as well as the disclosure of contingent assets and liabilities in these footnotes. Actual results could differ from those estimates.

I. Reclassifications. On the statement of changes in net assets available for plan benefits, the 2000 presentation for "Investment income (loss)" has had two items reclassified to conform to the 2001 presentation:

1. The 2000 earnings figures for the Barclays Equity Index Fund and the Barclays U.S. Debt Index Fund are now distributed between "Net unrealized appreciation (depreciation) in market value of Barclays funds" and "Net realized gain (loss) from sale of Barclays funds."

2. In 2000, net realized gain or loss was included in "Net appreciation (depreciation) in market value." Net realized gain or loss is now separately classified as "Net realized gain (loss) from sale of Barclays funds."

(3) INCOME TAX STATUS

FERSA (5 U.S.C. § 8440(a)(1)) states that the Plan shall be treated as a trust as described in section 401(a) of the Internal Revenue Code (Code) which is exempt from taxation under section 501(a) of the Code. This status was reaffirmed in the Tax Reform Act of 1986, Section 1147 (codified at I.R.C. § 7701(j)). It is not necessary for the Plan to apply for a determination letter since it is qualified by statute.

(4) COMMITMENTS

The Board has entered into Interagency Agreements with the Department of Agriculture's National Finance Center (NFC). Under the agreements, the NFC performs detailed record keeping of participant account balances (operations) and software development, and maintains a service office responsible for loan, withdrawal, and interfund transfer processing, as well as servicing employees who have left Federal service. This agreement may be canceled by the Board with 3 months' notice or by the Department of Agriculture with 1 year's notice. The NFC's fees for fiscal year 2002 are estimated to be $59,138,000.

On May 20, 1997, the Board entered into a contract with American Management Systems, Inc. (AMS) for the design, development, and implementation of an automated daily valued record keeping system based on a commercial product created by SunGard Employee Benefit Systems. Work commenced in 1997.

On July 17, 2001, the Board terminated its contract with AMS for default. Concurrent with termination of the contract, the Board's Executive Director filed suit on behalf of the Fund against AMS in the United States District Court for the District of Columbia. The lawsuit alleges that AMS breached its contract to construct the Board's computerized record keeping system and committed fraud in connection with the contract. The lawsuit seeks to recover actual damages of approximately $50 million and punitive damages of $300 million. On November 30, 2001, the court entered an order granting AMS's motion to dismiss for lack of subject matter jurisdiction. On December 5, 2001, the Board filed a notice of appeal of the decision; the appeal is currently pending in the United States Court of Appeals for the District of Columbia Circuit. If the Board does not prevail on this or any further appeals, it is possible for the suit to be refiled by the Department of Justice on behalf of the Fund.

On October 10, 2001, AMS filed a complaint against the United States of America in the United States Court of Federal Claims. This suit alleges that the Board improperly terminated AMS for default. AMS seeks a judgment that the Board breached its contract with AMS and that the termination for default should be treated as a termination for the convenience of the Government. AMS's complaint does not seek monetary damages. On January 25, 2002, the United States filed a motion to dismiss AMS's complaint on the ground that the court lacks jurisdiction; this motion is still pending.

As a contingency against the potential performance failure of AMS, in January 2001, the Board awarded a contract to Materials, Communication & Computers, Inc. (MATCOM) of Alexandria, VA. On August 1, 2001, the Board authorized MATCOM to begin work on the same project that AMS had been unable to complete. Under the terms of the Board's contract with MATCOM, the project is to be completed within one year for a cost not to exceed $22 million.

Total costs incurred under the AMS contract of $53 million, together with internal systems development costs of $12 million, were capitalized as data processing software. The Board, with the assistance of MATCOM, determined that only $1 million of the capitalized costs are salvageable, and that the other $64 million of capitalized costs have no ongoing value. Therefore, $23 million of capitalized data processing software and its associated accounts payable, which were derived from unpaid AMS invoices, were reversed from the accompanying statement of net assets available for plan benefits. Also, the remaining $41 million of capitalized data processing software was written off from the accompanying statement of net assets available for plan benefits and reflected as administrative expenses in the accompanying statement of changes in net assets available for plan benefits. These expenses of $41 million have not been charged to participant accounts; they will be amortized to participant accounts net of any recovery from the Board's pending litigation with AMS.

The Board leases the office space it occupies in Washington, D.C., under an operating lease and a sublease. The operating lease ends in 2002, with an option to extend for one 5-year period. The sublease expires May 31, 2002. Monthly base rental payments under the two leases range from approximately $101,000 to $110,000. The operating lease provides the Board with incentives to be paid by the lessor, which reduces the base rental payments over the term of the leases. Accounting principles generally accepted in the United States require that rent expense be recognized equally over the term of the lease. This results in more rent expense in the early years of the leases. The difference between rent paid, and rent expense, along with the unamortized lease incentive is reflected as deferred rent and lease credits in the statement of net assets available for plan benefits. Monthly base rent expense over the terms of the lease and sublease is $96,000.

(5) FIDUCIARY INSURANCE

FERSA (5 U.S.C. § 8479(b)(1)) provides that the Executive Director may assess Federal agencies for the purpose of buying fiduciary insurance. The Executive Director exercised this authority in 1987 and required agencies to submit an amount equal to 1 percent of their contributions. Such sums were collected during 1987 and 1988 and invested to the extent not currently required to purchase fiduciary insurance. In February 1988, the Executive Director instructed agencies to discontinue the 1 percent fiduciary insurance contributions. The balance of funds available for the purchase of fiduciary insurance as of December 31, 2001, was $5,095,000, which has been invested in the same securities held by the G Fund and included in total investments on the accompanying statement of net assets available for plan benefits. The Board has determined that the current insurance reserve is adequate to fund coverage needs for the foreseeable future.